



# *Infrastructure Financing Study*

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*January 8, 2001*

## *Advisory Committee FINAL REPORT*

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### *Advisory Committee*

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Lincoln



Nebraska's Capital City

January 31, 2001

*To Members of the City Council:*

Attached are the final report and unanimous recommendations of the Infrastructure Financing Study Advisory Committee. This committee, which we established in August 2000, has completed an intense four months of hard work and discussion. The Committee members had a variety of backgrounds, including developers, educators, neighborhood representatives and financial consultants.

I believe their report provides a good starting point for developing an overall strategy for financing infrastructure improvements. They have provided a broad overall approach that could provide more resources to make infrastructure improvements, while being more predictable and systematic. Not everyone may agree with every recommendation, but the report provides a general direction for future discussion.

There is still a lot of work and further public dialogue needed as we begin work on the important details of establishing new city infrastructure policies. There will be many challenges ahead as we begin drafting the needed legislation and reviewing the possibilities of implementation. However, I am encouraged by our progress and we will be well guided by the IFSAC final report.

*Committee Report:*

*Goals:* In addition to recommendations on specific utilities and services, the committee also provided twelve important goals to guide all financing strategies. These goals are laudable and will be a basis for further actions. The goals include the need for a fair and predictable system, a balanced approach that serves the needs of both new and developing areas, minimizing impacts on affordable housing and conformance with the Comprehensive Plan.

*Recommendations:* The Committee began their work by looking at all possible financing mechanisms. They recommend a variety of tools depending upon the type of infrastructure service. They have proposed many significant steps which can have a lasting positive impact on our community. They propose the creation of a city wide stormwater utility in order to address many of the flooding needs identified in the past few years. Their proposal for a park land and trail dedication requirement and a park and trail impact fee in lieu of dedication could help provide recreational facilities and provide for the over dozen new neighborhood parks identified in the Comprehensive Plan. They have also recommended new water and sanitary sewer connection fees and road impact fees to assist in the development of these services in developing areas. These are important proposals on which we seem to have reached a consensus.

They also worked hard on a proposal for the creation of special districts to assess costs for sanitary sewer, water, roads and stormwater outside of the city limits. This recommendation would require changes in state legislation, as well as their proposal for exploring with the County Board a county wide wheel tax, which is also currently not allowed under state law.

*Implementation Approach*

I look forward to further discussions with the City Council, County Board and members of the community as we develop our new city infrastructure policies. I will be working with the Public Works and Utilities Department and Parks and Recreation Department to begin the next step -- the implementation process. As we move forward with developing an implementation strategy, we will need further public review and discussion on these important details.

Again, I want to thank the Advisory Committee members for all their time, hard work, ideas and willingness to assist us in establishing an overall approach to infrastructure financing.

Sincerely,

Mayor Don Wesely

## I. Findings on Current Situation

- ◆ *Inequity:* The current method of negotiating infrastructure improvements at time of annexation, change of zone or preliminary plat is often inequitable and inconsistent. Negotiating contributions to needed improvements on a case-by-case basis sometimes leads to some developments paying significantly higher costs than adjacent properties or similar developments in different areas of Lincoln. The committee heard testimony from developers and observed that in many cases developers are paying significant “extractions” costs while in other cases, little or no costs are extracted on properties that have benefitted from infrastructure development.
- ◆ *Lack of Resources:* It is perceived that the City is “behind” in providing infrastructure in developing areas as well maintaining improvements in existing areas. The City is “behind” in that improvements are not in place concurrent with adjacent development. The City needs greater financial resources to address the capital costs of water, wastewater, roads, parks and storm sewer improvements. The greatest need is for additional funds for road improvements.
- ◆ *Lack of Predictability:* Since infrastructure costs to a development are negotiated on a case-by-case basis, a property owner can’t determine in advance the costs of development.
- ◆ *Capital Impact of Growth:* In the areas that this committee focused its attention, Duncan Associates reported that each new single-family detached dwelling unit had a capital cost of \$9,885 for arterial streets, water, wastewater and parks. Duncan determined the net costs of these capital improvements were \$7,390. This number is consistent with impact fees for these services in other communities studied by Duncan. These figures provided by Duncan represented the long-term costs associated with these four areas, and the committee understood that other studies may provide different figures that could vary significantly from the ones provided by Duncan. Nevertheless, a majority of the committee did believe there were costs to growth.

*The role of the IFSAC was to address the capital improvement costs to the local government of the City of Lincoln. This role did not include addressing the needs of any school districts or other jurisdictions outside of the City of Lincoln. The study’s base assumption is from the current Comprehensive Plan which designates areas for the future growth of the City and encourages preservation of existing neighborhoods.*

## II. Recommended Goals for Infrastructure Financing

The City of Lincoln's methods for financing infrastructure improvements should:

1. *Develop a Fair and Predictable System:* Distribute the costs fairly among all property owners who benefit from the improvements. The goal of the system is that costs could be known in advance of development.
2. *Use an Appropriate Financing Method for Each Infrastructure Need:* One method of financing may not be appropriate for all types of infrastructure needs.
3. *A Balanced Approach:* The community at large should provide more financing of maintenance and improvements in existing areas. Responsible levels of government need to coordinate and acquire right-of-way and construct infrastructure in a more planned, timely and efficient manner which will in turn reduce the construction, maintenance, repair and replacement of public infrastructure improvements. If overall infrastructure costs are possibly lowered, then the public will save dollars, while new development can continue to fund similar amount of dollars for improvements in developing areas. In turn, this will help improve the community's infrastructure while using all available means to keep housing costs as low as possible. Both new and existing development should pay its fair share of improvement costs due to growth and maintenance. In general, improvements which are of general benefit to the whole community should be paid by the community while improvements which are of special benefit to a specific area should be paid by that area.
4. *Conformance with Comprehensive Plan:* Infrastructure improvements should continue to be developed only in areas identified for development in the Lincoln/Lancaster County Comprehensive Plan.
5. *Provide for Maintenance and Improvements in Existing Areas:* Financing methods should not focus all of the improvements into developing areas, leaving inadequate resources to address needs in other areas. The City needs to adequately fund infrastructure maintenance and improvements in older neighborhoods.
6. *Minimize Impact on Affordable Housing:* Infrastructure financing should not increase the cost of affordable housing in Lincoln, and the City should encourage a mix of affordable new housing in new development areas where possible.
7. *Progressive Rather than Regressive System:* For individual home owners, whenever possible, revenue to pay for infrastructure costs should decrease as the owner's ability to pay decreases.



8. *Minimize Impact on Those Who Are Not Developing Land:* As much as possible, property owners should only be assessed or pay the improvement costs at the time they seek approval of development proposals or building permits. There was considerable discussion about the impact of financing mechanisms on property owners in an area under development who don't want to develop their land at this time. There were some who advocated that these owners should be assessed the costs of improvements whenever the improvements are made. Others thought this was unfair at that these property owners should only pay the improvement costs at the time they seek approval of development proposals. The Committee did agree, however, that the community should grow in an orderly compact fashion, and therefore infrastructure improvements should be made in a timely manner and property owners need to be educated about the growth and infrastructure plans to reduce the elements of surprise and anger and to foster more informed personal planning decisions.
9. *Increase the Amount of Revenue:* For utilities, more property owners should participate in funding improvements in new areas at generally the same rate as other developers currently participate. Today, some new developments pay a lot for improvements while others sometimes pay nothing. In the future, all new developments should pay at generally the same level as those developers who participate in improvements today. For roads, the amount paid for improvements will differ for some types of development when compared to today's levels. There needs to be additional funds for road construction.
10. *Build More Improvements Sooner:* The City should attempt to build the road, water and wastewater improvements in the six year Capital Improvement Program (CIP) over the next four years, without an adverse impact on property taxes. Accelerating the CIP will require millions of more dollars for improvements per year and should only be done if new financial resources and alternative financing techniques have been implemented.
11. *Concurrent Improvements:* Infrastructure improvements should be made concurrent with development. Except in limited cases, such improvements should not be made in advance of development proposals in an area. There should be adequate infrastructure in place every year to accommodate housing and employment demands.
12. *Encourage Efficiency:* There should be further cooperation between the public and private sector and long-range planning efforts to save on the City's development costs that could be used for infrastructure improvements. The City should encourage efficiency and cooperation, such as working with the County Engineer for early acquisition of right-of-way and roadway design which would save street construction funds in the long term.



### III. Recommendations on Financing Alternatives

*The Committee spent a considerable amount of time discussing the alternatives available to the City and hearing from the public and various city departments. The following is the Committee's recommended general approach for each infrastructure type.*

#### *Water and Wastewater*

- ◆ Establish special districts to fund a portion of the capital costs to construct basin sanitary sewer trunk line and section line water mains. A special district assessment formula could be based upon a per-acre or other equitable formula. An expansion of special assessment district legislation should be sought for water and sanitary sewer, as well as roads and stormwater improvements. New or expanded special assessment district enabling legislation could include:
  - ◆ expand infrastructure improvement funding outside the city limits,
  - ◆ allow acreage assessment and other "fair and equitable formulas,"
  - ◆ enable principal and interest payment deferrals for agricultural property subject to a greenbelt qualification, and authorize a recapture provision,
  - ◆ broaden the definition of "special benefit," and
  - ◆ permit assessment liens on agricultural land.
- ◆ Another source of financing is to establish a connection fee in newly-developing areas, to be paid at the time of building permit, to recover a portion of the capital costs to build trunk sewer lines and water mains. The fee should not significantly impact housing costs and could be less regressive if smaller lots paid less for the water connection fee. The connection fee would be paid by residential, commercial, industrial and public/semi-public uses.
- ◆ Utility fees paid by utility customers as a whole should continue to fund the cost of the over-sizing portion of section line water mains and over-sizing basin trunk sewer lines. Utility fees should also fund the costs for water and sewer treatment, storage, pressure and pumping, which provide a community benefit. In addition, utility fees should pay for operation, maintenance and replacement improvements.
- ◆ Initiate a minor increase in utility fees and/or begin limited use of existing utility fund balances to be used for utility maintenance in existing areas in conjunction with the connection fee mentioned above.
- ◆ Strategic use of revenue bonds --- some use of revenue bonds may be needed until special districts, connection and utility fees generate enough funds for improvements.
- ◆ City should look at current tap fee (which is \$75 or more currently) to see if the City is recovering the costs of labor and materials for installing connection. The current tap fee is set at a price to recover tapping costs and the water meter.



### *Arterial Streets*

- ◆ Establish **special districts** to fund a portion of the capital costs to construct arterial roads. A special district assessment formula could be based upon a per acre or other equitable formula. An expansion of special assessment district legislation should be sought for water and sanitary sewer, as well as road and stormwater improvements. New or expanded special assessment district enabling legislation could include:
  - ◆ expand infrastructure improvement funding outside the city limits,
  - ◆ allow acreage assessment and other “fair and equitable formulas,”
  - ◆ enable principal and interest payment deferments for agricultural property subject to a greenbelt qualification and authorize a recapture provision,
  - ◆ broaden the definition of “special benefit,” and
  - ◆ permit assessment liens on agricultural land.
- ◆ Another source of financing is to establish an impact fee at time of building permit for road improvement costs in developing areas. The fee should not be at full capital recovery cost for residential uses (\$2,700). Large traffic generators, like commercial and industrial businesses, will pay a majority of the costs due to their traffic impact.
- ◆ Residential developments impact fee should be based on recovering the costs of three lanes (two through lanes and center turn lane) of a five lane arterial. This is based on the idea that property owners on each side of an arterial pay for one and half lanes each. Commercial development would end up paying for more lanes due to impact.
- ◆ Some mechanism should be employed so that the road impact fee does not impact affordable housing.
- ◆ Funds obtained from impact fee must be used for new streets in the general area from which the impact fee was collected. According to Duncan Associates, the impact fee must be calculated based on the amount of traffic impact. The Committee discussed that the City should look at other methods for calculating impact.
- ◆ Examine potential options to increase funding for road maintenance in existing areas in conjunction with the impact fee for use in developing areas.
- ◆ Explore with the County Board a potential County-wide wheel tax. Currently, only residents in the City of Lincoln pay the wheel tax. This idea will have to be further refined as there may be difficulties in taxing only county residents outside the city limits. Counties in Nebraska are currently not authorized to initiate a wheel tax.
- ◆ Encourage City and County to cooperate on development and right-of-way acquisition so that rural roads can safely and efficiently transition into urban roads.



### *Parks and Trails*

- ◆ Establish a mandatory **park land and trail dedication** requirement for residential plats. Establish a **park and trail impact fee** that can be paid in-lieu of land dedication.
- ◆ The Committee recommends that the following issues be reviewed when establishing a park and trail impact fee:
  - ◆ Credit given for establishing private maintenance of public open space.
  - ◆ Partial credit for preservation of open space and environmental features that are open to the public.
  - ◆ Ability of the Parks and Recreation Department to maintain new and existing parks and trails.
- ◆ The Committee also recommends against continuing to depend on general obligation (G. O.) bonds for park improvements. There may be some circumstances where G. O. bonds for community-wide parks are still the most appropriate financing method.

### *Stormwater*

- ◆ Establish a **city wide stormwater utility service fee** to be paid by residential, commercial, industrial and public/semi-public uses. Funds would be used by Public Works and Utilities to fund improvements. The City should not establish a separate department and all funds should be kept in a separate enterprise fund. The Committee recommends some mechanism be employed so that the fee does not impact affordable housing and those with limited ability to pay.
- ◆ The Committee recommends that the stormwater utility service fee be used as follows:
  - ◆ for new construction, upgrading or replacing facilities or otherwise addressing existing deficiencies;
  - ◆ in lieu of dependence on general obligation (G.O.) bonds for funding (though there still may be major projects that may require use of G.O. bonds);
  - ◆ for water quality issues and monitoring; and
  - ◆ for Beal Slough and other basin improvements, and that it not be used for maintenance of detention ponds and pipes.
- ◆ The Committee recommends in the future that, for those projects in the floodplain, an additional tax or special benefit district be created relating to the costs of the floodplain impact.



*Other Services*

- ◆ The Committee does not recommend any new funding sources at this time for Lincoln Electric System, Lincoln Fire Department, Lincoln Police Department and Lincoln City Libraries.
- ◆ The role of the Committee did not include addressing the needs of any school districts or other jurisdictions outside of the City of Lincoln. It is recommended that school capital costs be reviewed in future studies, and the committee encourages additional cooperation between the City and school districts in the future on the impact of growth.

*Options for Further Consideration in the Future*

*The Committee recommends that in the future, the community examine development taxes as potential funding for infrastructure financing.*

*Options to No Longer Consider*

*The Committee reviewed Sanitary Improvement Districts (SID) as a potential alternative and recommends against their use in Lincoln.*